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15 April 2013

International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH
United Kingdom
Email: CommentLetters@ifrs.org

Dear Sirs,

SAICA SUBMISSION ON EXPOSURE DRAFT ON *ACQUISITION OF AN INTEREST IN A JOINT OPERATION* - PROPOSED AMENDMENTS TO IFRS 11 - *JOINT ARRANGEMENTS*

In response to your request for comments on the IASB's exposure draft on *Acquisition of an Interest in a Joint Operation* - Proposed Amendments to IFRS 11 - *Joint Arrangements*, attached is the comment letter prepared by Accounting Practices Committee (APC) of The South African Institute of Chartered Accountants (SAICA). This comment letter results from deliberations of the APC, which comprises members from reporting organisations, regulators, auditors, IFRS specialists and academics.

We thank you for the opportunity to provide comments on this document.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Yours faithfully,

Sue Ludolph
Project Director – Financial Reporting

cc: Paul O'Flaherty (Chairman of the Accounting Practices Committee)

Integritas, 7 Zulberg Close, Bruma Lake, 2198 POSTAL ADDRESS PO Box 59875, Kengray, 2100, Johannesburg
TEL +27 11 621 6600 FAX +27 11 621 3321 CALL CENTRE 08610 SAICA (72422) EMAIL saica@saica.co.za WEB saica.co.za | accountancysa.org.za

SAICA SUBMISSION ON EXPOSURE DRAFT ON *ACQUISITION OF AN INTEREST IN A JOINT OPERATION* - PROPOSED AMENDMENTS TO IFRS 11 - *JOINT ARRANGEMENTS*

GENERAL COMMENTS

We commend the International Accounting Standards Board (IASB) for its efforts to clarify the accounting for the acquisition of an interest in a jointly controlled operation by a joint operator.

Our responses to the specific questions raised in the exposure draft are set out below.

SPECIFIC COMMENTS

Question 1: relevant principles

The IASB proposes to amend IFRS 11 and IFRS 1 so that a joint operator accounting for the acquisition of an interest in a joint operation in which the activity of the joint operation constitutes a business applies the relevant principles on business combinations accounting in IFRS 3 and other Standards, and discloses the relevant information required by those Standards for business combinations.
Do you agree with the proposed amendment? Why or why not? If not, what alternative do you propose?

We agree with the proposal that states that IFRS 3 – *Business Combinations* and other relevant Standards should be applied by the joint operator when accounting for the interest in the joint operation in which the activity constitutes a business. We consider that as in the acquisition of a subsidiary or associate/joint venture, the acquisition of an interest in a joint operation which constitutes a business should also have the principles of IFRS 3 and other relevant Standards applied. We are not convinced that accounting for the acquisition of such an interest using the historical cost basis will provide decision-useful information to users of financial statements.

However in reaching the above conclusion, we believe that there are certain issues that need to be considered by the IASB when making these amendments.

Assessment of a whether a business exists, or not

The acquisition of an interest in a joint venture may take a variety of forms. An interest may be acquired (a) from an existing joint operator or; (b) at the formation of a joint operation for either a contribution of assets and liabilities or a process to be used by the operation. We believe that the assessment of whether a business exists should be made at the time of the acquisition and should consider all assets and processes that have been contributed by all operators to the date of acquisition of the interest in the joint operation. That is, paragraph 21A should clarify that the assessment should be made on the basis of what all the joint operators have created through their contributions. Where a joint operation is formed, all contributions from all joint operators will be considered as to whether a business has been created (albeit that each individual operator may not have contributed a business. In the case of a direct acquisition from an existing joint operator, the assessment will be of the business housed in the joint operation.

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We consider that where the joint operators have created a business through their contribution, that a fundamental change has taken place and that this ought to be recognised by applying the principles of IFRS 3 and other relevant Standards. Currently, this is applied when acquiring an interest in a subsidiary, an associate or a joint venture. We do not believe that there is any reason why a joint operation, which constitutes a business, should be treated differently from these other entity forms.

Notwithstanding the comments above, we believe that preparers may still have difficulty in concluding whether a business exists, or not. However, we consider that this is a cross cutting issue that relates to the definition of a business overall and affects the requirements of any standard that references to the requirements of IFRS 3. We would encourage the IASB and/or the IFRS Interpretations Committee, to continue to develop interpretative guidance in respect of the definition of a business.

A party that participates in, but does not have joint control

We note that the requirements of paragraph 23 have not been amended and agree that this should be the case. As such a participant does not have the ability to jointly control the operation; we believe that such a party to the arrangement should not apply the requirements of IFRS 3 and other related standards. For the purposes of clarity, we believe that paragraph 21A of the amendments should be specifically excluded from the requirements of paragraph 23.

Application of paragraph 21A

The manner in which joint operation are created may be varied. There may be instances where the aggregate net assets contributed on formation correlates directly with the interest that the joint operator has in the joint operation. However, although the joint operators have contributed in the ratio of the interest in aggregate, the rights to specific assets and obligations for specific liabilities may not be on the same basis as their overall interest in the joint operations. In yet other instances, the aggregate contribution may differ from the overall interest in the joint operation.

The only accounting guidance that is provided to joint operators are the requirements of paragraph 20 – 22 of IFRS 11 and the newly introduced Illustrative example 7. We consider these insufficient to meet the needs of the paragraph 21A and would urge the Board to consider providing further accounting guidance. We believe that this should, cover the following issues:

- The recognition by each joint operator of the assets and liabilities of the business of the joint operation, both those net assets contributed and any assets and liabilities that are created by the application of IFRS 3 and other standards. For example, where a joint operator contributes mineral rights and the other joint operators will contribute all necessary capital expenditures to extract ore, we would expect that the joint operators recognise their interest in all assets and liabilities of the joint operation (including goodwill, deferred taxation and recognised contingent liabilities through the application of IFRS 3) in proportion to their interest.

- The derecognition of any assets that have been contributed to a joint operation when acquiring an interest in the joint operation. We consider that when creating a business through contribution of net assets to the joint operation, the joint operator should derecognise the assets and liabilities contributed and recognise their interest in the assets and liabilities of the business that has been created in the joint operation. Hence, this will also require the guidance to consider the recognition of any gains/losses on derecognition of the net assets contributed. Consistent with our response to ED/2012/6: *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture Proposed amendments to IFRS 10 – Consolidated Financial Statements and IAS 28 – Investments in Associates*, we believe that gains and losses on contribution should be permitted at the time of contribution.

We further note that there may be instances where the joint arrangement is only for a limited life and in such cases a joint operator may not have contributed the entire asset to a joint operation, but rather a usufruct right of the asset for a limited period of time. This concept is currently under consideration in the Boards lease project, and we believe that similar partial derecognition guidance should be incorporated for these amendments to be successfully applied.

Question 2: scope

The IASB intends to apply the proposed amendment to IFRS 11 and the proposed consequential amendment to IFRS 1 to the acquisition of an interest in a joint operation on its formation. However, it should not apply if no existing business is contributed to the joint operation on its formation.
Do you agree with the proposed amendment? Why or why not? If not, what alternative do you propose?

We agree with the proposal to apply the proposed amendment to IFRS 11 and the proposed consequential amendment to IFRS 1 – *First-time Adoption of International Financial Reporting Standards* to the acquisition of an interest in a joint operation on its formation.

As indicated above, our preference is that the requirements of IFRS 3 should be applicable to all situations where a joint operator acquires an interest in a joint operation that constitutes a business. Such acquisitions may occur at the formation of the joint operation or at a later date by acquiring the interest of an existing joint operator. Further, as indicated above, we believe that the assessment of whether a business exists should not be made on the individual contribution of a joint operator, but on all contributions made at the time of formation of a joint venture.

Question 3: transition requirement

The IASB intends to apply the proposed amendment to IFRS 11 and the proposed consequential amendment to IFRS 1 prospectively to acquisitions of interests in joint operations in which the activity of the joint operation constitutes a business on or after the effective date.

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Do you agree with the proposed transition requirement? Why or why not? If not, what alternative do you propose?

We agree with the proposed transition requirement.

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